

Voluntary - Public

Date: 7/14/2009

GAIN Report Number: 9028

Philippines

Post: Manila

Wine Product Brief

Report Categories:

Wine

Approved By:

Emiko Purdy

Prepared By:

Maria Ramona C. Singian

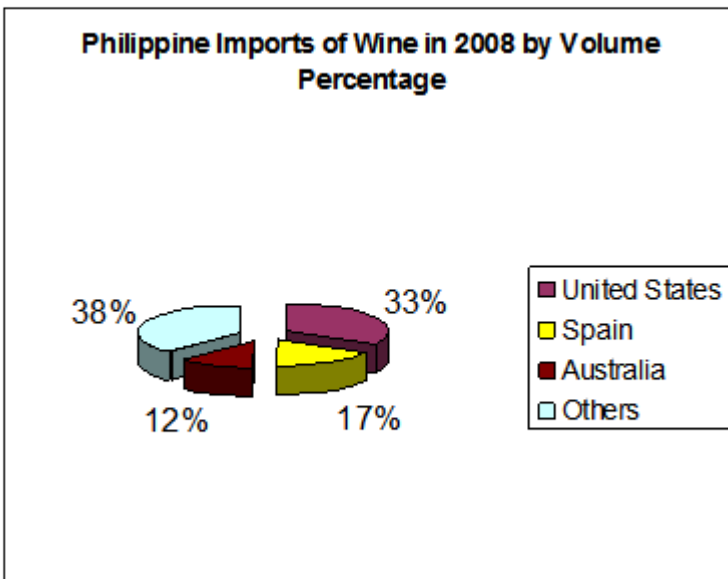
Report Highlights:

The emerging Philippine wine market continues to expand, with total imports of wine valued at \$15.6 million and a volume of 14 million liters in 2008. This represents a 100 percent increase over sales in 2002 and a 200 percent increase over 1998. The U.S. overtook France in 2000 as the largest exporter of wines to the Philippines and still holds that title today. Valued at \$5.4 million in 2008, U.S. wine exports to the Philippines marked a significant 25 percent increase over the previous year, with volumes accounting for 4.6 million liters.

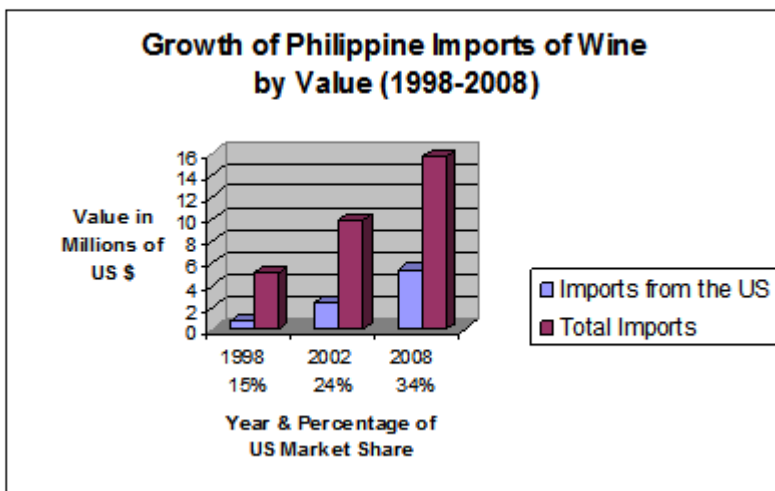
Marketers report that wines selling for less than \$6.00 to \$7.00 (based on retail pricing) account for most sales, although demand for premium products is on the rise as consumers have become more familiar with fine wines. Traders predict continued double-digit annual growth in the near-term, fueled by growing consumer interest and awareness, perceived health benefits of red wine, expansion in number of wines in the market, and stepped up promotions.

General Information:

I. SUMMARY



The emerging Philippine wine market continues to expand, with sales reaching \$15.6 million and a volume of 14 million liters in 2008, up by 20 percent from the year before. This represents a 100 percent increase over sales in 2002 and a 200 percent increase over sales in 1998. The U.S. overtook France in 2000 as the largest exporter of wines to the Philippines and still holds that title today. Valued at \$5.4 million in 2008, U.S. wine exports to the Philippines marked a significant 25 percent increase over the previous year, with volumes accounting for 4.6 million liters. The United States is the top supplier, accounting for one-third of total volume, followed by Spain (2.3 million liters) and Australia (1.6 million liters).



Value-priced wines led by large-scale producers such as E&J Gallo, have an 18 percent share of the total still grape wine category and continues to fuel growth in the market. This is mainly due to the Filipinos' familiarity with the brand, affordable pricing and extensive national distribution network. Meanwhile, traders report growing interest in premium products as consumer awareness in these wines grow and preferences become more and more sophisticated. Continued double-digit annual growth in both premium and valued-priced wines is foreseen due to growing interest in wine and further penetration into the mass market, perceived health benefits of red wine, expansion in the market to include significant volumes of New World wines, and stepped up promotions.

II. MARKET TRENDS AND OPPORTUNITIES

Introduction of affordable wines spurs growth

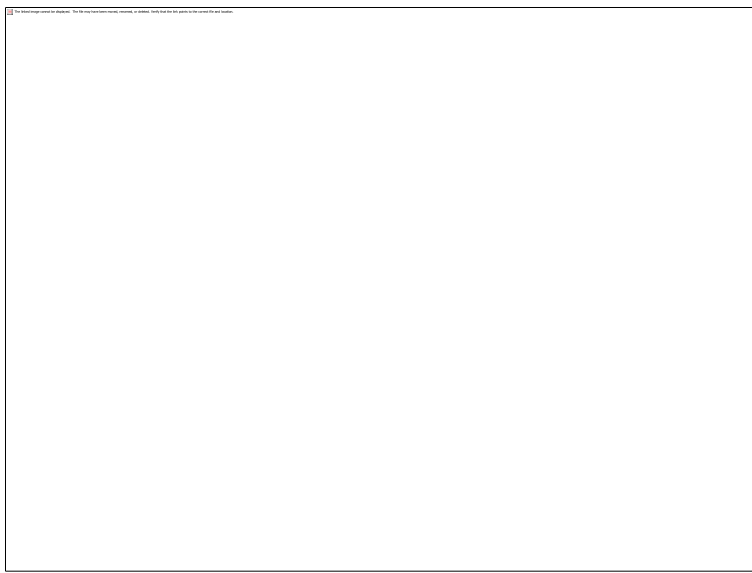
Philippine wine imports remained sluggish until the late 1990s due to the high price of wines in the market at that time, poor distribution, and perception of wine as a luxury product. Sales picked up dramatically in recent years as both Old and New World suppliers began shipping full container loads of value-priced product, mostly sweet, fruity wines that appealed to local tastes. Wine distribution also improved with more floor space dedicated to wine in supermarkets and specialty shops, greatly improving visibility and spurring a mass market.



Popular wines in the value segment (priced at less than \$6.00 on retail), which accounts for an estimated 60 percent of sales, include American red wine brands such as Carlo Rossi (currently retailing for \$3.20 per 750 ml bottle at the current exchange rate of PhP48.00/\$1.00) and Franzia (\$2.40), a wide variety of French wines priced from \$2.25 - \$4.00, Don Quixote and Don Simon from Spain (\$2.70 - \$3.00) and Novellino "sweet lively red wine", locally made from Italian grapes (\$3.70).

Wine marketers aim to boost premium segment

Wine importers are building on the growth and working to encourage consumers to try mid-range and premium varietals thru sampling and education. Effective promotions include tastings, wine seminars and food-matching dinners. Particularly popular are wine and food matches that highlight wines paired with contemporary Filipino dishes to encourage wine consumption on a regular basis.



*On the Menu: Roasted Marrow Bone with sides of
Black Truffle Paste, a Lemon Wedge and Crusty Bread
matched with California Riesling*

Many successful premium wines are first introduced in hotels and restaurants with follow-up purchases at retail outlets, wine bars and on-line wine clubs. Traders say marketing support is important to ensure a long-term presence. In fact, most Metro Manila restaurants will not carry new wines without marketing incentives. Examples of support include "Wine of the Month" specials (which typically cost from \$1,000 to \$1,500 per outlet), staff incentives (\$0.45-\$0.65/bottle), and media launches. French and Australian wine marketers reportedly lead the market in providing this type of promotional support.



Another promoter of premium wines is the International Wine and Food Society, which has a very active membership base in the Philippines of wine connoisseurs and collectors. Wine magazines and internet news keep them abreast with the latest in the wine industry. Some wine aficionados have ventured into the wine importation business as a hobby and to support a passion for collecting boutique and on-allocation wines. High-end wines are often pre-sold to end consumers prior to the arrival of the shipment.



Popular U.S. wines in the mid-range segment include a wide variety of reds and whites from Beringer, Sutter Home, Kendall Jackson and Andretti (priced from \$6.00 to \$20.00 on wholesale). Premium wines in the market include Cakebread, Chateau St. Jean, Ferrari Carrano, Freemark Abbey, St. Francis and Shramsberg (priced above \$20.00 on wholesale). There are also several more expensive premium wines such as Chateau Montelena, Joseph Phelps, Clos DuVal, Pahlmeyer, Groth, DR Stephens, Paul Hobbs, Kistler and Staglin Family Vineyards (priced above 80.00 on wholesale).



Varietal Preferences

Red wines used to be more popular vs. white wines mainly because Filipino consumers in the earlier part of the decade were still unfamiliar with wine color and varietals. Because of the increase in wine activities the shift toward more whites and rosés is evident. Champagne is patronized by the upper class of Filipino society because of its price range. Martinis Asti Spumante became a household term synonymous to sparkling wine and is often given as a gift. Consumers are now discovering that sparkling wines from the New World regions are affordable and an acceptable replacement for Champagne.



*International Chef Instructor
and Spa Cuisine forerunner
Ruth Van Waerebeek presents
the health benefits of wine and
how to pair with healthy food
at the US Culinary Theater in
Manila.*

Filipinos' sweet palate

Filipinos generally have a sweet palate. To meet this preference, importers always make sure that a sweeter varietal is always present in rounding up a portfolio of wines. Similar to other growing markets, there has been a shift to drier varietals as consumers experiment with more wines and become accustomed to food matching.

Growing health trend

The growing health consciousness among Filipinos is contributing to the growth of the wine market. Wine importers continue to emphasize healthiness as a selling point and use flyers, advertorials, wine tags to communicate the benefits of drinking wine.

The total alcoholic drinks market is estimated at 2 billion liters. Wine holds less than 1% percent market share, suggesting significant room for growth as consumers look to healthier alternatives to beer and spirits.

Ready market for new American wines

Advantages:

- Filipinos are familiar with California wines especially those from Napa Valley
- American wines offer good value for money vs. other New World wines
- There is a strong preference for the sweet White Zinfandel variety
- More and more American wines have earned international recognition and awards

Opportunities:

- Introduce wines from other states such as Washington, Oregon and New York
- Capitalize on the end consumer's desire to learn more about wines by aggressively conducting innovative wine activities during the introduction phase
- Use popular brands to penetrate and gain strong foothold of the mass market
- Tap into available marketing support from wineries and cooperators

Possible Limiting Factors:

- Price range of American wines vs. other New World wines
- Weakening of the peso vs. the dollar

III. MARKET ACCESS

- Product Registration

All processed food products offered for retail sale in the Philippines must be registered with the Bureau of Food and Drugs (BFAD). Registration of imported products may only be undertaken by a Philippine entity, although some documentation and, for certain types of products, samples need to be provided by the exporter. Products have been divided into two categories with distinct sets of registration requirements and procedures. Wines fall under Category II.

An application for registration should be filed by the Philippine importer for the importation and distribution/ offer for sale of each class per brand of product. Only products with a valid Certificate of Product Registration from BFAD will be allowed for retail sale in the Philippines.

Following is a list of requirements for the registration of wines:

- Letter of application for registration from importer/distributor;
- Valid License to Operate (LTO) as an importer/distributor (issued by BFAD);
- Product Information
- List of ingredients in decreasing order of proportion. For additives with prescribed limit, the amount added must be indicated;
- Finished product specification (physico-chemical and microbiological);
- Samples of the product in its commercial presentation for laboratory analysis;
- Loose label and labeling materials to be used for the products;
- Estimated shelf-life, parameters used and methods for determining shelf-life;
- Brief description/flow diagram of the method of manufacture;
- Certificate of analysis. Include analytical methods used. Additional requirements for food supplements may apply as necessary;
- Registration fee of PhP250 to PhP1,000 per product plus cost of laboratory analysis.

Laboratory testing by BFAD for products under Category II is mandatory to determine the safety of the product and to assure that there will be no misbranding or adulteration.

A Certificate of Product Registration (CPR) shall be issued by BFAD and shall be valid for one (1) year. Subsequent renewal of a CPR shall be valid for a period of five (5) years. Cost of renewal is PhP 5,000 for Category II products.

Exporters should also note that a Philippine importer needs to secure a License to Operate (LTO) from BFAD, which is actually a prerequisite for the registration of any food product. The License lists names of foreign suppliers or sources of the products being registered. Thus, the importer is required to obtain from the exporter and submit to BFAD the following: (1) a copy of the Foreign Agency Agreement duly authenticated by the Philippine Consulate in the country of origin and; (2) a Certificate of Status of Manufacture by the exporter issued by the Government Health Agency of the country where the product is manufactured; this should also be authenticated by the Philippine Consulate. The cost of the initial one-year licensing fee is Pesos 4,000. Renewal of License to Operate, valid for two (2) years, is Pesos 8,000.

In March 2008, BFAD issued Bureau Circular No. 6-A (2007) imposing additional requirements for imported products to be sold in the Philippines. BFAD requires all importers to obtain a Certificate of Free Sale for the said product from the regulatory agency of the exporting country.

The timetable for the approval of BFAD application is 90 working days or 3 months, assuming that all documents are complete

- Label and packaging regulations

BFAD requires that importers provide advance copies of the labels of the products they intend to import. This information is required for the registration of imported food and drink products.

The “Principal Display Panel” of the label shall be that part which is present or shown to the consumer under customary conditions of display for retail trade. The “Information Panel” of the label shall be that part immediately contiguous to the principal display panel.

A complete list of ingredients shall be declared in descending order of proportion on either the principal display panel or information panel.

The net content shall be declared using the metric system or measurement or SI (International System of Units) on either the principal display panel or information panel in line generally to the base of the package. For liquid, the declaration shall be made by the product’s volume.

The country of origin shall be indicated if the product is being exported or imported. The name and address of the importer or local distributor shall be declared in the labels of imported products except for sole legal distributors/ importers.

The alcohol content in terms of percentages or proof units shall be indicated on the principal display panel of the label.

The language used for all information on the label shall be either English or any major dialect or a combination thereof. In the case of imported food product, labels wherein the information are declared in a foreign language must also carry the corresponding English translation.

- There are no import quotas for wine products

- Excise Tax Rates

Heading No.	H.S.Code Description	Rate of Duty (%)
2204	Wines of fresh grapes, including fortified wines; grape must (other than vinegar and substitutes for vinegar obtained from acetic acid).	
	2204.1000 Sparkling wine	7
	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol.	
	2204.2100 In containers containing 2L or less	7
	2204.2900 Other	7
	2204.3000 Other grape must	7

- Import Duty Rates

Description of Article	Tax Rate
A. Sparkling wines/champagne regardless of proof	
A.1. Net retail price per bottle (excluding VAT & excise) is Ps500 or less.	PhP157.25 per bottle
A.2. Net retail price per bottle (excluding VAT & excise) is more than Ps500.	PhP471.74 per bottle
B. Still wines containing 14% of alcohol by volume or less	PhP 18.87 per liter
C. Still wines containing more than 14% but not more than 25% of alcohol by volume.	PhP 34.94 per liter
* Current Exchange Rate: PhP 48.00 = \$1.00	

- Value-Added Tax (VAT) for wines is 12 percent of Total Landed Cost
- Bureau of Internal Revenue Strip Stamps = PhP 3.75 per case (12 bottles)

IV. PRICING AND DISTRIBUTION

- Pricing

There are three tiers for the Wholesale Price or the price offered by the importer/distributor to the HRI and retail establishments.

	Wholesale Price per Bottle	
	in PhP	in US\$
House	Below PhP290	Below \$6.00
Mid-priced	Below PhP960	Below \$20.00
Premium	Above PhP960	Above \$20.00
* Current Exchange Rate: PhP 48.00 = \$1.00		

- Trade mark-up

The following computation is provided to give wine exporters an idea of how prices are computed for each stage of distribution from point of entry (C.I.F. Price) to final sale:

Volume: 1x20Fcl = approx. 1,200 cases (12bot/case)

	in US\$
CIF Price (1,200 cases at \$50 per case)	60000
Plus: Customs Duties and Excise Taxes	7000
- Depending on the declared value	
Sub Total: Landed Cost	67000
Plus: Mark-up of Distributor (approx. 20-40%)	
at 20%	13400
Sub Total: Wholesale Price to HRI/Retail	
1x20Fcl	80400
per bottle	5.58

Price to end consumer:

- HRI usually add a 300% mark-up to the end consumer dining in their outlets
 - Wine List Price per bottle: \$16.75 (at 300% mark-up)
- Retailers usually add a 15-20% mark-up to the end consumer
 - Suggested Retail Price per bottle:\$6.40 (at 15% mark-up)
- Trade incentives

Part of a distributor's sales pitch to encourage establishments to list the products are various trade incentives and support in the form of merchandising materials, funding to defray the cost of developing promo-specific materials and other incentives.



American Flights Promotion

Marketing support fund

A marketing support fund is requested by some hotels or restaurant establishments to defray the cost of materials for promotional activities. The marketing support fund ranges from \$2,500 to \$5,000 per annum to list the product as the house wine in 3-5 outlets. Others charge \$1,000 to \$1,500 for wine of the month promotions. The marketing support fund is incorporated by the importer/ distributor into the wholesale price depending on the projected volumes. Preferred pricing is offered by the importer/ distributor for establishments that do not require a marketing support fund.



Volumes for wine of the month promotions on peak seasons can reach 30-60 cases for the red varietals and 10-20 cases for the white varietals. Volumes for house wines differ depending on the outlet.

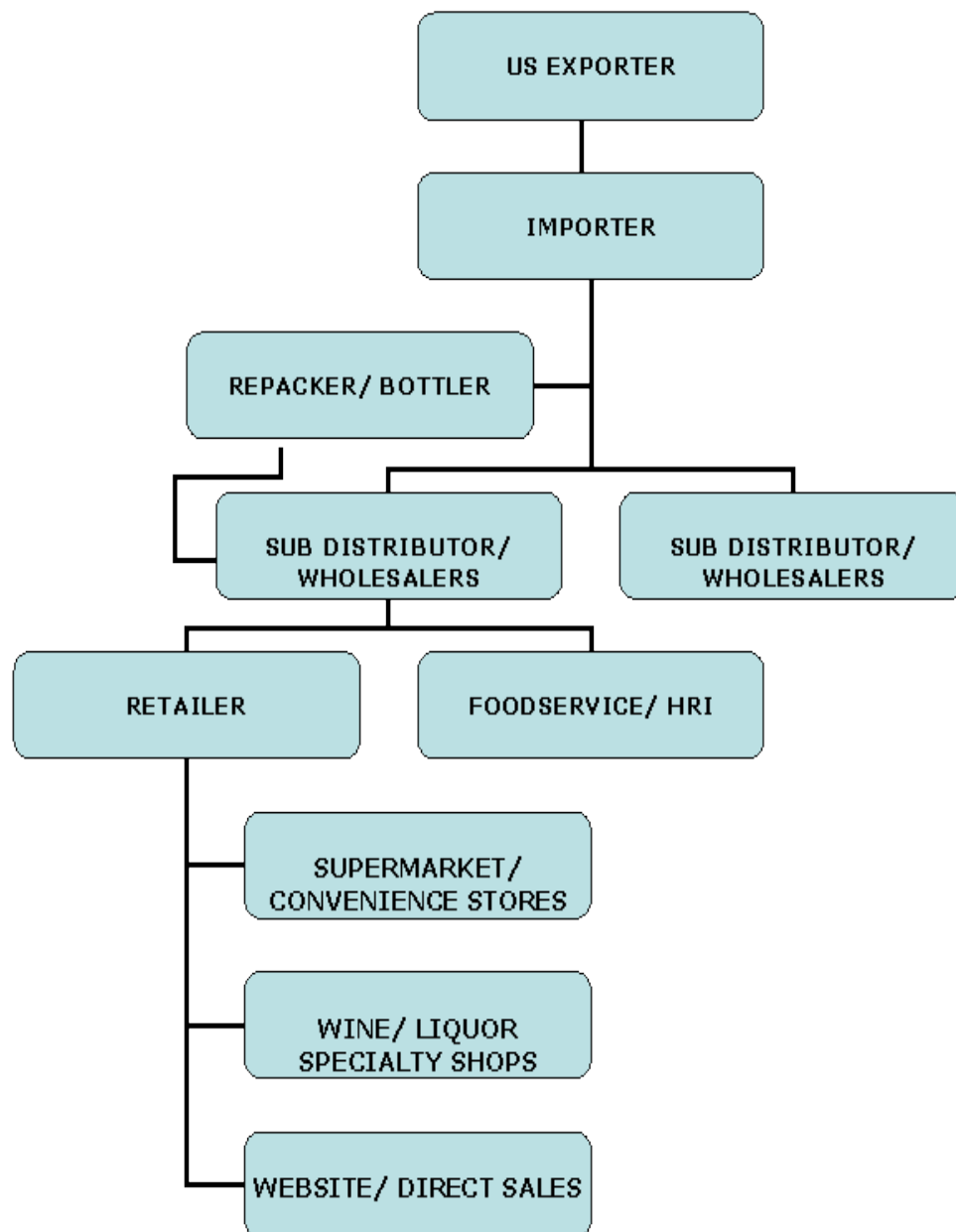
A diverse collection of over 450 wines offered by the glass or in tasting flights at CAV, an urban destination to experience and explore the fascinating world of wine

Other incentives

Importer/ distributors offer incentives to key accounts to maintain or reach volume targets. Incentives are given in the form of free products, premiums, all-expense paid wine tours, etc.

An incentive that is quite peculiar is known as the “cork incentive” which was initially introduced by one of the forerunners in the wine importation industry. It is an incentive for the front-liners or waitstaff to actively suggest the product to the customer. The cork incentive ranges from PhP20.00 (\$0.45) for house wines to PhP30.00 (\$0.65) for mid-priced to premium wines. Now, it is expected by the trade from every importer/ distributor. It has lost its purpose and adds on to the cost of the product. Importers/ distributors are trying to wean the trade from the traditional cork incentive and are now offering small giveaways such as caps, shirts and pens to more premium prizes such as cellular phones, small appliances, watches, etc. in order to try to outdo competition, incentives are woven into more innovative mechanics such as accumulation of points in exchange for rewards, team goals, competitions, etc.

- Distribution set-up



V. BEST MARKET ENTRY PRACTICES FOR NEW-TO-MARKET EXPORTERS

Appointing a Distributor

- New-to-market exporters can best penetrate the market by appointing an experienced distributor who has: a) the capacity to facilitate smooth, proper and quick-entry of the product to the country, b) a well established reputation, c) a wide range of HRI and retail trade contacts, and d) a team of seasoned sales and marketing personnel.

Market Testing



- Initial market introduction/ testing can be done by providing product and merchandising samples for the appointed distributor to present to the trade.
- Wine tasting activities can be organized for both the trade and the end consumer to gather feedback on the product, price and promotional strategy.
- It is best to conduct one-on-one product presentation to key decision makers of the HRI and retail establishments (i.e. hotel food and beverage directors, general managers, establishment owners, purchasers, bar managers, etc.) to secure firm orders or commitments to list the product upon arrival and to discuss how the product can be best promoted in the outlet. Some establishments invite importers/ distributors to submit product samples and their respective bids at the end of the year to select the wines that will be listed for the following year. A selection is made after a tasting and evaluation is conducted.



*Chef Ming Tsai pours his favorite bubbly
from Napa Valley in 'Manila Meets Ming'*

- Advanced orders from the trade or a commitment to list the product is an important task that an importer/ distributor must accomplish prior to ordering.
- The product mix of the initial full-container load can be determined based on experience, advance orders from the trade and projected sales volumes. Following is a typical product mix for a 1x20Fcl:

60% House

25% Mid-priced

15% Premium



U.S. Ambassador Kristie A. Kenney hosts a Wine Reception at her residence

Market Introduction

- Advertise the new brand through print and radio depending on the positioning of the brand. Advertorials in trade magazines or lifestyle section of broadsheets is an effective tool that can be used to educate the market or highlight a product's unique selling proposition. Television advertising on local channels offers very low reach and cost-effectiveness due to the presence of numerous cable TV channels.

Celebrity Chef, Emmanuel “Chef in Black” Stroobant charms the crowd in an entertaining cooking demonstration and wine pairing afternoon in Manila



- The promotional strategy must include a good mix of below-the-line activities such as sponsorship of major special events, product tie-ups, wine tastings/ samplings, wine dinners, wine appreciation seminars and exhibits. The events are often tied-in with the visit of the vineyard’s representative such as the winemaker. A public relations campaign can be employed simultaneously to maximize the exposure and create the desired image for the brand.
- Product training for HRI and retail front-liners must be conducted.
- FAS Manila incorporates wine training in Post/ U.S. Cooperator activities.

Key Contacts: Philippine Importers of Grape Wine

To obtain a list of Philippine importers, please contact:

Foreign Agricultural Service
U.S. Department of Agriculture
Embassy of the United States of America
25th Floor Ayala Life-FGU Building
Ayala Avenue, City of Makati
Metro Manila , Philippines

Tel: (632) 8945363

Fax: (632) 8125430

Email: agmanila@fas.usda.gov